

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill Number: HB 58

52nd Legislature, 2nd Session, 2016

Tracking Number: .202656.1SA

Short Title: Retiree Health Care Contribution Rates

Sponsor(s): Representatives Tomás E. Salazar and Dennis J. Roch

Analyst: David Craig

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At a Glance:

HB 58 amends the *Retiree Health Care Act* to increase employer and employee contributions to the New Mexico Retiree Health Care Fund (“the Fund”) over three years.

Key Points:

- By protecting the solvency of the Fund, HB 58 may help to ensure future retirees have access to healthcare.
- If money is not appropriated in FY18 to FY20 to cover the increases in HB 58, school districts and charter schools will be required to fund increases out of their Operating budgets.
- The take-home pay of education employees will modestly decrease beginning in FY18.
- Shifting employee’s compensation into retirement benefits may impair efforts to recruit and retain teachers.

Fiscal Impact:

This analysis focuses on the impacts to public education employers and employees. As such, the analysis will not consider changes for employees that are members of an enhanced retirement plan, defined as public safety employees and judges.

HB 58 does not make an appropriation. HB 58 will impact school districts, charter schools and their employees. Based on PED projections of FY17 general fund expenditures on licensed and unlicensed personnel, and assuming an additional 12 percent of personnel costs are funded through other state or federal funds, LESC staff estimate the total three-year impact is approximately:

- \$16.5 million for school districts and charter schools; and
- \$8.2 million for public school employees.

Public education employers’ General Fund share of increased contributions to the Fund would be paid by proceeds from the state equalization guarantee (SEG) distribution for that year. Each year, if funding is available, the Legislature considers projected increases in the employer’s insurance contribution rates of the state’s public schools. The General Fund impact of HB 58 from public school employees is approximately \$4.9 million per year, for a total impact of over

\$14.7 million when fully implemented. Using PED's estimated average returning teacher's salary of \$47,522 in FY16, the average teacher will be paying \$59.40 more to the Fund each year.

Detailed Provisions:

For employers of employees who are not members of an enhanced retirement plan, including school districts and charter schools, HB 58 increases the contribution to the Fund for each participating employee by 0.25 percent each year from FY18 through FY20:

- to 2.25 percent in FY18;
- to 2.50 percent in FY19; and
- to 2.75 percent in FY20 and subsequent years.

HB 58 also requires employees who are not members of an enhanced retirement plan to increase their contribution to the fund by 0.125 percent each year from FY18 through FY20:

- to 1.125 percent in FY18;
- to 1.250 percent in FY19 ; and
- to 1.375 percent in FY20 and subsequent years.

Substantive Issues:

The Retiree Health Care Authority (RHCA) projects spending will exceed revenue in 2020. HB 58 does not consider alternative policies that may help address solvency, such as raising the age eligibility for benefits or increasing plan premiums. However, RHCA indicates it will begin taking these and other steps in the near future, including:

- increasing cost sharing on prescription coverage and pre-Medicare plans; and
- implementing a minimum age requirement to receive subsidies for non-enhanced retirement plans, beginning January 1, 2020.

RHCA also indicates, if HB 58 does not pass, it will consider the following alternatives:

- 14 percent annual increases for all pre-Medicare plans;
- pre-Medicare plan deductibles of \$2,000 with maximum out-of-pocket limits of \$6,000;
- increasing the minimum retirement age to 60;
- eliminating spousal subsidies;
- eliminating the Medicare supplement plan; and/or
- migrating to a defined contribution plan.

Related Bills:

HB 43 *Public Safety Employee Contribution Payments*

HB 116 *Education Employee Retiree Health Care*

SB 35 *Retiree Health Care Contribution Rates*